Betashares Active Australian Hybrids Fund (Managed Fund)

ASX: HBRD

Quarterly Report - December 2024

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Performance[1]	1 month %	3 month %	6 month %	1 year %	3 years % p.a.	Inception % p.a.[2]
Fund Return (net)	0.54%	1.53%	3.48%	7.07%	4.34%	4.15%
Growth return	0.08%	0.08%	0.54%	1.04%	-0.42%	0.29%
Income return	0.46%	1.45%	2.94%	6.03%	4.76%	3.86%
Solactive Australian Hybrid Securities Index (Solactive Index)	0.47%	1.25%	3.37%	6.88%	4.33%	4.25%
Active Return	0.07%	0.28%	0.11%	0.19%	0.01%	-0.10%

Past performance is not a reliable indicator of future performance.

[1]As at 31 December 2024. Returns are calculated after fees & expenses have been deducted and distributions have been reinvested.

[2]Inception date for the Fund is 13 November 2017.

Yield and portfolio characteristics	
Running Yield (% p.a.)[1]	5.79%
Gross Running Yield (% p.a.)[2]	6.36%
Fund Constituents	135

[1]Average yield (weighted by market value) of the hybrids portfolio, divided by the current market price of the securities. This provides an indication of expected current income from making an investment at market price. This value will vary over time.

[2]Average estimated gross yield (weighted by market values and inclusive of franking credits) of the hybrids in the portfolio, divided by the current market price of the securities. This provides an indication of the expected current income from making an investment at market price. This figure is indicative only and will vary over time. Not all investors will be able to obtain the full value of franking credits.

Investment objective

The Fund provides investors with a convenient way to access attractive income returns, including franking credits, from an actively managed, diversified portfolio of hybrid securities. As the Fund is overseen by a professional investment manager, it actively seeks to reduce the volatility and downside risk that may otherwise be experienced by direct holders of hybrids.

Responsible entity

Betashares Capital Ltd

Investment manager

Coolahbah Capital Institutional Investments Pty Ltd

Distribution frequency

Monthly

Suggested minimum investment timeframe

At least three years

Fund facts	
Inception Date	13-Nov-17
Fund Size	$2351.12m
Historical Tracking Error (annualised)	0.84%
ASX Code	HBRD
Bloomberg Code	HBRD.AU
IRESS Code	HBRD.ASX

Fees	% p.a.
Management fee	0.45
Recoverable expenses	~0.10
Performance fee[1]	15.5

[1]A performance fee may be payable. This fee is 15.5% of the Fund's performance above the performance benchmark in a calendar quarter.

Investment strategy

The Fund invests in an actively managed portfolio of hybrid securities, bonds and cash. If and when the hybrids market is assessed to be overvalued or presents a heightened risk of capital loss, the Fund can allocate more of the portfolio to lower risk securities.

Top 10 positions[1]	
AN3PL	NABPH
WBCPM	ANZ 6.124 07/25/39
WSTP Float 06/23/33	CBAAU Float 04/14/32
NAB Float 11/18/31	CBAAU Float 09/10/30
ANZ Float 05/16/33	WBCPJ

[1]As at 31 Decemeber 2024

Sector exposure[1]	Fund Weight %	Index Weight %	Active Weight %
Preference Shares	29.6	98.8	-69.3
Capital Notes	0.0	1.2	-1.2
Subordinated	16.8	0.0	16.8
Senior	51.3	0.0	51.3
Cash	2.3	0.0	2.3
TOTAL	100.00	100.00	0.00

[1]As at 31 December 2024

Fund performance summary

Over the December 2024 quarter, HBRD returned 1.53% unfranked and after fees, and 1.76% franked after fees, outperforming the benchmark Solactive Australian Bank Hybrid Securities Index's return of 1.25% unfranked. HBRD closed the quarter with a gross running yield of 6.36% p.a., and a credit rating of investment grade A-. Over the calendar year 2024, HBRD returned 7.07% unfranked and after fees, and 7.80% franked after fees, outperforming the benchmark Solactive Australian Bank Hybrid Securities Index's return of 6.88% unfranked.

Credit spreads on 5-year major bank hybrids started the quarter at 204bps above the 3-month Bank Bill Swap Rate (BBSW), before tightening to 187bps in late October, drifting wider to around 215bps before 9 December when APRA announced that Australian bank (although not insurer) hybrids would be phased out. This sparked a rally on the day as buyers looked to pick up the now limited supply of inventory before trading reduced in tempo for a few weeks as investors paused to take stock of the situation, resulting in very wide bid/ask spreads and reduced liquidity within the market. As investors digested the news, trading flows gradually returned, and we ended up the year with a traditional Santa rally, with spreads pushing tighter again to close 2024 at 203bps above BBSW.

Hybrid yields have benefitted from rising interest rates with the 3-month BBSW rate climbing from 0% in 2021 to 4.42% in December 2024, giving investors greater baseline yields regardless of overall spread levels. In particular, 5-year major bank hybrids paid a running yield of 6.45% p.a. (a combination of the 5-year hybrid spread level of 203bps and the 3-month BBSW rate of 442 bps), around the same level as the running yield paid 3 months ago, and a yield-to-call of 5.89% p.a. (a combination of the 5-year hybrid spread level of 203bps and the 5-year quarterly swap rate of 386bps), which is 26bps higher than the September quarter end and was driven by swap rates moving wider.

Hybrid market and outlook

Activity in the quarter was dominated by the APRA announcement that they would phase-out bank hybrids by 2032 (insurer hybrids will remain afoot). Under HBRD's documentation, it is benchmarked against unfranked indices produced by Solactive, which track the performance of bank and insurer hybrid securities. Despite only being about 30% allocated to hybrids (the remaining 70% was invested in bonds), HBRD outperformed the Solactive benchmark by 92bps in 2024 after fees. Indeed, HBRD has beaten the major bank hybrid indices after fees since inception notwithstanding that it has been historically underinvested in the sector (and allocated to higher-ranking bonds).

Coolabah expects HBRD's benchmark to be eventually upgraded to more appropriately reflect its current universe, which primarily amounts to investment-grade bonds issued by banks and insurers in Aussie dollars and global currencies, hedged back to AUD. Once again, we would note that HBRD will still have the capacity to allocate to insurer and corporate hybrids.

There were no hybrid deals over the quarter, and we note that in the upcoming March quarter, ANZ is due to call their Capital Note 5 instrument (AN3PH), which has $931m outstanding. It is technically possible that they will roll the issue into a new shorter tenor deal provided that any such deal has a call date before 2032, so long as any total new issuance is no larger than their called issues (that is, the total amount of all issuances outstanding can't increase). However, ANZ, and other banks, will have to seek special approval from APRA to roll called issues. We note that on a current risk-weighted asset basis, if ANZ does not roll this issue and instead returns funds to investors, they will still remain above their regulatory capital requirement (composed of common equity plus AT1 hybrids).

There are risks associated with an investment in HBRD, including interest rate risk, credit risk, hybrids complexity risk and sector concentration risk. For more information on risks and other features of HBRD, please see the Product Disclosure Statement.

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